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PROGRAMME PLANNING AND IMPLEMENTATION

Country and intercountry programmes and projects

EXTENSION OF THE THIRD COUNTRY PROGRAMME FOR ALBANIA

Period of extension	Resources	$
1993	IPF	1 600 000
	Total	1 600 000

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I. JUSTIFICATION

1. The third country programme for Albania was approved by the Governing Council at its special session in February 1987, for the programme period January 1987 to December 1991. Because of the difficult transitional problems Albania was experiencing in late 1990, the Government requested a one-year extension of the programme, which the Administrator approved and of which the Council took note at its thirty-ninth session. While the Government intended to submit the fifth cycle programme to the Council at its fortieth session, continued transitional difficulties have created delays in finalizing the priorities for the country programme and the Government is seeking the approval of the Council for a further one-year extension, beginning 1 January 1993.

II. OBJECTIVES

2. Following 40 years of a tightly regulated and centralized economy and autocratic rule, Albania's transition to a market economy and a democratic system has been among the most difficult in the region. The first democratic Government, elected in a free general election held in March 1992, has undertaken the arduous task of reforming the economy, from total State control to a free market system, while leading the population through a difficult and painful transitional period. Major targets of the reform are the institutionalization of human rights, privatization of land and economic activities and a thorough restructuring of society on the model of western democracies.

3. The collapse of the old order and the abolition of its system of controls and institutional structures has been accompanied by a disastrous economic downturn with production and productivity both declining sharply. Estimates for 1991 and 1992 show a dramatic fall in per capita gross domestic product (GDP) to well below $600. Agriculture, which employed 50 per cent of the population and represented two fifths of GDP up to 1990, virtually collapsed, resulting in a need for massive food aid in order to avoid famine and malnutrition. Industry, which previously accounted for 38 per cent of GDP and a fourth of those employed, has also been seriously affected. Since 1990, unemployment has been rising sharply to about 35 per cent of the labour force. Youth unemployment may be as high as 50 to 60 per cent.

4. The effort of reaching consensus on the new structures that are required to sustain a market economy and a democratic system has taken longer than anticipated and the resources, both human and financial, necessary to put these new structures in place have not materialized to the extent envisaged or required. During this difficult transitional period, the international community has provided sizeable humanitarian and food aid as well as agricultural and industrial inputs. Beyond the above emergency activities, which are vital in view of the current state of the Albanian economy, it is increasingly clear that a comprehensive approach is necessary to ensure that Albania can successfully emerge from the present crisis and gradually attain a satisfactory level of economic growth and external viability. While the present situation is still one of actual crisis, Albania's longer-term prospects are

relatively good as the country stands to benefit from its European location, its rich agricultural base and its endowment of other natural resources.

5. The Government has already embarked on broad-based reforms and is committed to a comprehensive economic and financial programme that aims at achieving a decisive transition to a market-based economy notwithstanding the exceptionally difficult starting conditions. The strategy involves a careful balance of essential macroeconomic and institutional policies within the constraints of implementation capacity. Major objectives are: (a) following early price reform, a substantial reduction in the monthly inflation rate; (b) arresting the further decline of the economy, with emphasis on an early revival of agriculture; (c) an increase in presently negligible official reserves; and (d) protection of targeted income groups through a rationalized social safety net.

6. The Government is embarking on a vast privatization programme that encourages joint ventures. A privatization agency has been established. In early 1992, privatization initiatives had already started and focused mainly on retail outlets, services and handicrafts, which were sold to the employees. Present plans call for privatization or liquidation of 50 per cent of State-owned enterprises within the next five years. The private sector itself is, however, still in an embryonic stage, but is expected to develop rapidly. Reform of the banking system is also under way. Some 35 applications to open commercial foreign banks have been received from abroad by the Government so far.

7. The proposed reform programme for Albania received the strong support of the international community when it was reviewed in July 1992 by the first G-24 meeting held in Tirana.

III. DESCRIPTION OF THE PROGRAMME

8. The third country programme for Albania (1987-1991) was approved by the Governing Council at its special session in February 1987. The total available UNDP resources were $7.7 million. The development objectives were to strengthen the Government's capacity in the education, telecommunications, energy, food production and health sectors. Fellowships and equipment were the two major items in the budgets of projects receiving UNDP support.

9. A mid-term review of the third country programme was held in October 1989. A significant part of the available indicative planning figure (IPF) resources had been committed at that time. The review concluded that the original objectives of the programme as planned and as reflected in the project documents remained valid. While it was impossible to assess the impact of the programme at that time, it was possible to determine that the projects were cost-effective and were being implemented successfully. However, most of the assistance went to the strengthening of the university and science and technology institutes and in the absence of a mechanism to filter the knowledge gained down to the productive spheres of society, it had little practical impact on production in the fields concerned.

10. Moreover, the implementation of one major project included in the third country programme, Strengthening of Agricultural, Industrial and Medical Use of

Isotopes by Means of Research Reactor, funded at $2 million, encountered a number of delays after its approval in 1987 as a consequence of factors both within the project itself and in the larger economic situation in the country. In view of the dramatic changes that have occurred in Albania since 1990 and the need to re-examine carefully priorities at a time of serious economic difficulties, extensive consultations between UNDP and the Government have led to the decision to discontinue the project. While an expenditure of approximately $150,000 has occurred on preparatory assistance and initial phases of the project, the balance of the project funding will be released for other priority projects in the proposed fourth country programme.

11. In 1990-1991, the uncommitted funds of the fourth cycle were reoriented into new areas in order to assist the emerging democratic process and transformation towards a market economy. Numerous programming missions were undertaken in 1991-1992 to carry out sectoral reviews in agriculture, industry, energy and the environment, with the aim of designing new approaches to address problems emerging in the transitional period. In addition, beginning in January 1991, extensive use was made of the Management Development Programme (MDP) and some intercountry resources were directed towards the reform programme for the transition of the country. Missions funded from these resources included teams to assist in the privatization of small and medium industries, the drafting of foreign investment laws, the restructuring of the Ministry of Industry, Mines and Energy, the restructuring of the Faculty of Economics, University of Tirana and the creation of a national management centre. All proposals resulting from these missions are now being used either by bilateral or multilateral donors or United Nations specialized agencies, including UNDP, to develop further the appropriate policy framework for reform.

12. The overall process of political, social and economic change started during the second part of 1990. It was, therefore, considered unwise to begin the preparation of the new country programme, which was initially scheduled to start in January 1992. However, to avoid any disruption in UNDP support to Albania, it was agreed with the Government to create a programme development support project executed by the Office for Project Services (OPS), which would allow the possibility to: (a) satisfy newly emerging needs of critical importance for the future implementation of political and socioeconomic structural reform; (b) satisfy urgent technical cooperation and management needs to facilitate the implementation of food aid and humanitarian aid programmes; (c) assist the Government in its policy dialogue with its main new international partners including, inter alia, the World Bank, the International Monetary Fund (IMF) and the European Bank for Reconstruction and Development (EBRD); and (d) assist the Government in the development of new technical cooperation programmes and projects that would serve primarily as a basis for future UNDP support to Albania.

13. For the period of the second extension, the programme would continue to provide assistance along the lines outlined above, but would also lend support to a number of new activities where UNDP has a comparative advantage for the restructuring of the transition. These would include:

(a) Alleviation of the social impact of structural adjustment and other economic reforms, with particular attention to the changes required in the

institutional and legal framework of the country and to labour-intensive public works programmes in both rural and urban areas;

(b) A focus on human development issues, particularly human rights, the entrenchment of the democratic process, the redeployment of people affected by the conversion of military industries, the role of women in development, and the role of grass-roots organizations in development;

(c) National capacity-building in the fields of management development, development and economic planning, aid coordination and resource mobilization.

14. It is hoped that non-governmental organizations (NGOS) will be fully engaged in the implementation of these activities following the increasingly active role they have been playing in the provision of emergency humanitarian assistance during the past two years.

15. The Government has submitted to the Governing Council at its current session a request to be accorded "as if" least developed country (LDC) status (DP/1993/67).

IV. RECOMMENDATION

16. The Administrator recommends that the Governing Council approve the second extension of the third country programme for Albania for a period of one year, from 1 January 1993.

FINANCIAL SUMMARY

ESTIMATED RESOURCES TAKEN INTO ACCOUNT FOR PROGRAMMING

		$
I.	ONGOING COUNTRY PROGRAMMES	
	Fourth cycle IPF	6 648 000
	Third cycle carry-over	1 536 000
	Fourth cycle carry-over	(1 291 000)
	Estimated 1992 expenditure	450 000
	Total fourth cycle resources	7 343 000
II.	ANTICIPATED RESOURCE NEEDS FOR EXTENSION PERIOD	
	Estimated expenditure for 1993	1 600 000
III.	FIFTH CYCLE RESOURCES AVAILABLE AFTER EXTENSION PERIOD	
	Fifth cycle IPF	5 983 000
	Fourth cycle carry-over	1 291 000
	Estimated expenditure for 1992	(450 000)
	Estimated expenditure for 1993	(1 600 000)
		5 224 000